

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
February 25, 2005

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Robert Welch, Trustee

Others Present

Bruce Kimery, Acting Executive Director
Leisa Julian, General Counsel
David Adams
Tony Armstrong, Deputy Budget Director
Ryan Kitchell, Public Finance Director
Bruce Fink, Chief Investment Officer

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Robert Welch, Trustee

Others Present

Eric Swank, Ice Miller
Elaine Beaty, McCready & Keene, Inc.
Douglas Todd, McCready & Keene, Inc.

PERF Staff Present

Bruce Kimery, Acting Executive Director
Bruce Fink, Chief Investment Officer
Patrick Henn, Internal Auditor
Michael Horstman, Chief Financial Officer
Clay Jackson, Chief Internal Auditor
Leisa Julian, General Counsel
Patrick Lane, Director of External Affairs
Linda Villegas, Staff Attorney
Cindy Osborne, Minutes Recorder

The Board of Trustees meeting was called to order by Chair Birge.

I. APPROVAL OF THE MINUTES

MOTION duly made and carried to approve the Minutes of the January 21, 2005 Board of Trustees meeting.

<i>Proposed by:</i>	<i>Connie Thurman</i>
<i>Seconded by:</i>	<i>Garland Ferrell</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

II. OLD BUSINESS

A. SBOA Audit Update

- Mr. Kimery reported that the scorecard has been modified so that PERF can measure progress as suggested by Mr. Welch. He explained that the findings marked by green have been completed and the ones marked by yellow were in process of completion, and the ones marked by red have not been processed.
- Mr. Ferrell reminded the Board that direction was given to Mr. Craig Hartzler, former Executive Director, regarding solving issues with respect to litigation, claims and disputes. Mr. Ferrell recommended that the Board move to formally ratify the actions taken by Mr. Hartzler with regard to any and all litigation, proceedings, claims and/or disputes during the period of his employment as Executive Director of PERF from February 10, 2003 to January 10, 2005, as a delegation of the Board's authority to settle such litigation, proceedings, claims and/or disputes.

MOTION duly made and carried to ratify the actions taken by Mr. Craig Hartzler, former Executive Director with respect to any and all litigation, proceedings, claims and/or disputes during the period of Mr. Hartzler's employment as Executive Director of PERF from February 10, 2003 to January 10, 2005.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Connie Thurman</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

B. Internal Audit Update

- Mr. Jackson provided an update on the status of internal findings from June 2004 through February 2005. There were 32 audit findings and six audit reports, three issues and three reviews. Currently, one of the three issues remains open. This issue is the staff training restrictions, which is being reviewed by PERF's Chief Investment Officer. To date, of the 32 findings there still remain six open findings. There are two open findings in the New Member/New Employer Group Enrollment Audit, Quality Control Review and Reporting. There is one finding in the Tax Reporting Audit that was issued in June 2004. There are two open findings in the Death Benefits Audit, which was issued in August 2004. In the Line of Duty Death Audit, the 1977 Fund Advisory Committee minutes finding remains open.
- Mr. Jackson continued to report that the two special projects that Mr. Kimery and Mr. Ferrell requested have been completed.

C. Legislative Update

- Ms. Julian provided an update on the pending legislation, specifically bills that pertain to PERF. She reported that the Budget bill, HB1001, is being watched closely because there is narrative language in the bill that affects PERF as far as moving the agency back under the umbrella of the State Budget Agency and the Attorney General's Office that would affect PERF through budgets and accounting procedures.
- **HB1165 – Securities Fraud:** This bill requires the Attorney General to investigate securities fraud, and has passed the House and has been referred to Committee in the Senate.
- **HB1235 – Reemployment of PERF and TRF Members:** This bill would increase the exempt amount of \$25,000 to \$45,000 that a person in a covered position can earn before their benefits must stop and must begin making contributions again to the Fund. This bill was passed out of Ways and Means.
- **HB1574 – COLA:** This bill has been amended from 2.7 percent to 2 percent for retirements prior to July 2, 1990 and to 1.5 percent for retirements after July 1, 1990 and before January 1, 2005.
- **HB1779 – Public Pension Investment Options:** This bill was amended from mandatory to discretionary. It gives the Board latitude in setting rules on implementing any kind of a more frequent valuation program.

- **SB0149 – Trustees of Pension Funds:** This bill adds the State Budget Director or his designee as an ex-officio member of the Board.
- **SB423 – Forfeiture of Public Pension for Misconduct:** This bill initially applied to nearly all PERF funds. This bill has been amended and no longer applies to judges, prosecutors or police and fire. There were added due process requirements in the bill after it was amended which would provide for a public hearing and the member would have the right to counsel. Before, the hearing would have been conducted in Executive Session of the Board.

II. NEW BUSINESS

A. Personnel Policies

- Ms. Julian presented the Adjusted Work Schedule Policy which allows PERF employees, subject to their supervisor's approval, the ability to adjust their work schedule up to a maximum of two hours a week. This policy will allow staff to make up small increments of time used for personal reasons without using vacation time.

MOTION duly made and carried to adopt the Adjusted Work Schedule Policy to allow employees, subject to their supervisor's approval, the ability to adjust their work schedule up to a maximum of two hours a week.

<i>Proposed by:</i>	<i>Connie Thurman</i>
<i>Seconded by:</i>	<i>Robert Welch</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

- Ms. Julian presented the Promote from Within Policy. This policy recommends that PERF fill all positions with the best-qualified people, preferably promoting from within whenever possible. Positions will be posted internally and externally at the same time before going through the selection process.

MOTION duly made and carried to adopt the Promote from Within Policy, allowing PERF to fill all positions with the best-qualified people, preferably promoting from within whenever possible. Positions will be posted internally and externally at the same time before going through the selection process.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Robert Welch</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

- Ms. Julian reminded the Board that upon appointing Mr. Kimery Acting Executive Director, the Board did not make clear that Mr. Kimery would be compensated at the same salary as the former executive director. Staff recommends that the Board move to compensate Mr. Kimery at the same level for the work he has done as Acting Executive Director.

MOTION duly made and adopted to compensate Mr. Kimery at the same salary as the former executive director for the work he has done as Acting Executive Director.

<i>Proposed by:</i>	<i>Connie Thurman</i>
<i>Seconded by:</i>	<i>Garland Ferrell</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

B. Board Policies

- Ms. Julian presented the Direct Deposit Policy that strongly encourages members and beneficiaries to receive their monthly benefits via direct deposit. This policy is per the General Assembly's law requiring PERF to adopt a policy that promotes direct deposit.

MOTION duly made and carried to adopt the Direct Deposit Policy that strongly encourages members and beneficiaries to receive their monthly benefits via direct deposit per the General Assembly's law requiring PERF to adopt a policy that promotes direct deposit.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Jonathan Birge</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

B. Indiana Pension Systems, Inc. (IPSI) Board Appointment

- Ms. Julian reminded the Board of a vacancy on the IPSI Board. This position is the Board position that alternates between PERF and TRF for appointment. PERF was the first to make an appointment, however, the prior board member has resigned, and there is now a vacancy. Mr. Kimery has talked with Mr. Karl Browning, head of the Office of Technology, and Mr. Browning has expressed an interest in serving on the IPSI Board. Staff recommends that the Board accept Mr. Browning as the IPSI Board Appointee.

MOTION duly made and carried to accept staff's recommendation of Mr. Karl Browning as the IPSI Board Appointee.

Proposed by: Connie Thurman
Seconded by: Garland Ferrell
Votes: Four in favor, 0 against, 0 abstentions

IV. COMMITTEE REPORTS/RECOMMENDATIONS

A. Investment Committee

- In Mr. Doermer's absence, Mr. Birge reported there was a report from J.P. Morgan on the Fourth Quarter 2004 Performance and Compliance Report. Mercer's representative, Doug Krysico, also made observations on the report. There also was a funding status presentation from Mr. Doug Todd of McCready and Keene. Mr. Birge reported that Mr. Fink, PERF Chief Investment Officer, presented a report on Small Cap Equity Re-balancing.

C. Benefits Committee

- Ms. Thurman reported that the retirements and application inquiries have increased because of the change in State Government.
- Staff has processed 4,047 refunds. Refunds have increased because of employees leaving State Government.
- Membership records have increased because of employees leaving State Government and new employees being hired.
- PERF is still receiving great results from Customer Service Surveys.
- There were 58,000 retirements paid out for this period.
- Mr. Prizevoits gave a presentation to the Committee regarding the mission and activities of Outreach Services. There have been great responses back from members and employers that Mr. Prizevoits and his staff have met with.

V. REPORT OF ACTING EXECUTIVE DIRECTOR

A. Operations Update/Financials

- Mr. Kimery reviewed the financial reports as of January 2005. He reported actual headcount is 111 positions, which are 16 positions under budget. Numerous positions are in various stages of the hiring process. In terms of operations update, he reported that the current computer system runs on Windows 98 and within the next 60 days, PERF computer systems will transition to Windows XP.

VI. DATE OF NEXT MEETING

The date of the next Board of Trustees meeting will be March 18, 2005.

VII. ADJOURNMENT

There being no further business, the meeting was adjourned.